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Chilton's

# AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket

JANUARY 1988

AN AUTOMOTIVE MARKETING SPECIAL REPORT

## AFTERMARKET RETAILING & SERVICE: CHANGING INTO THE 1990s

- Who Will Be The Customers?
- Who Will Be The Competition?
- How Will Operations Change?

Chilton's
# AUTOMOTIVE MARKETING

a Chilton publication

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**EDITORIAL STAFF**

**Rosemarie Kitchin**
Editor
(215) 964-4394

**Gail Krueger-Nicholson**
Senior Editor

**Philip Katcher**
Research Editor

**John Wirebach**
Senior News & Feature Editor

**Bonnie Lynne Shannon**
Editorial Assistant

**Jim Naughton**
Director of Graphics

**Janet Lee Taylor**
Art Director

**Sarah Frankson**
Publisher
(312) 782-1400

*PART OF* ***CAPITAL CITIES/ABC, INC.***

ABC Publishing President, Robert G. Burton
1330 Avenue of the Americas
New York, New York 10019

**Chilton Officers:**
President and Chief Executive Officer, Lawrence A. Fornasieri; Vice Presidents Publication, Richard D. Bay, Richard E. Dute; Vice President/Director Chilton Research Co., Ronald A. Hoxter; Vice President Finance, Christopher M. Savine; Vice President Operations, Donald W. Chestnut; Vice President Publishing, John P. Kushnerick.

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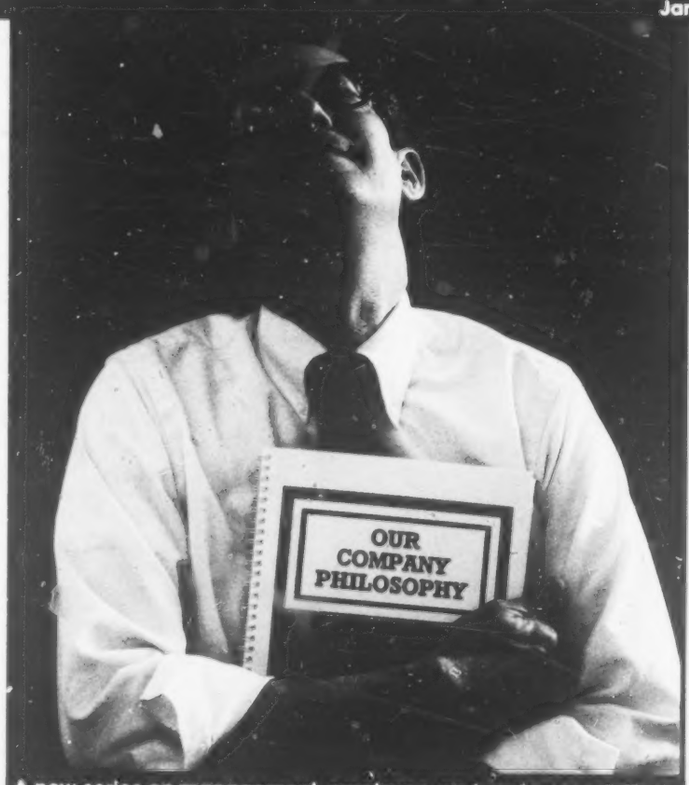


**A new series on management, employee, and customer relations begins on page 48.**

## FEATURES

**Aftermarket Retailing And Service: Changing Into The 1990s** 49
An *Automotive Marketing* special report on how the retail and service sectors of the aftermarket have changed over the past 20 years, and how they will change into the future.

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# PUBLISHER'S NOTES

## PEERING AHEAD

One major responsibility of business journalism is the analysis of the future. Taking on this challenge can make a magazine look very wise...or very unwise when that future becomes the present.

None the less, *Automotive Marketing's* top-notch editorial staff has stepped up to the challenge and put together a thought-provoking section on tomorrow's automotive parts retailing and distribution. In it, we discuss four parts and service sales channels: retail chains, traditional service, department/discount stores, and repair specialists. We've included lists of current major players. You'll find our piece interesting, and worth your reading.

In this issue, we introduce a new feature in our popular Detailing The Market section. Industry pundit Stuart Landow of American Independent Marketing Inc. has tackled our assignment to discuss controversial topics. His first – the up-front cost of merchandising support felt by aftermarket suppliers.

In Market Line, we look at the wax and polish market in the final story in our series on aftermarket commodities. *AM's* Index charts aftermarket stock vs. the general stock market.

We work hard to provide you with useful information.

Let us know how well we're doing! ■

*Sarah Frankson*
*Publisher*

# DETAILING THE MARKET

## IN-STORE FOCUS

**AID AUTO STORES INC.**
475 Doughty Blvd., POB 1100,
Inwood, NY 11696
(516) 371-4330
**Stores:** 82
**Total Chain Sales:** $15,000,000 (est.)
**Average SKUs:** 15,000
**Founded:** 1957
**Region Covered:** New York, New Jersey

There's a waiting list of potential franchisees at AID Auto Stores, which saw impressive growth in 1987 and has equally impressive plans for 1988.

Based in the New York metropolitan area, the chain expanded its New York stores by nine last year, and then spread out into New Jersey, where it opened 11 stores. New England is next, according to president Philip L. Stephen, who acquired AID in 1985.

"We're exploring various possibilities for New England," Stephen said. He's working with a proven game plan: "In order to be effective in your advertising, you have to have a cluster of stores." Attacking one state at a time, Stephen and his team plan to build a cluster in New England.

AID stores don't just happen. Each individual outlet is opened based on a careful – and highly successful – formula. Here's how it works:

When the time comes for a new AID store, Stephen and his five-man team of merchandising and retailing executives work together to pick the most effective location. This is done in two ways.

"First, we might pick a location that we feel is excellent (or come across it). Then we research it thoroughly, checking the competitive situation, including possible conflict with another AID store. Then, our consideration is to find a franchisee. We might offer it to an existing franchisee, or, if we don't have one, we will put a new franchisee in. We always have constant communication with people who are interested in becoming franchisees," Stephen said.

The second way an AID store opens is if a franchisee signs a contract and asks AID to find a location. If a franchisee already has a location in mind, the AID team will honor it, provided the demographics are right. Company executives conduct the demographic research themselves rather than hiring an outside firm; "We have enough expertise," Stephen explained.

Very few AID outlets are built from scratch. Most are rented, either in strip malls or in other existing locations.

Once a location is picked, Stephen said, "Our people design the store, working with contractors on any construction work that has to be done. We do the design and layout, and order the fixtures, carpeting, lighting and so forth. Our people lay out the merchandise and put the products on the shelves and pegboard."

During this period, the franchisee receives intensive training, first at corporate headquarters, and then more training in an existing AID outlet.

He works at all jobs, learning how to run the store, how to sell, how to open and close the store, and so forth. He gets constant support before opening day, and close supervision until he's "up and running."

From that time on, the franchisee is visited by a store coordinator. This individual is the liaison between corporate headquarters and the franchise outlet. He visits on a fixed weekly schedule, and acts as a problem solver and advisor.

What does this close supervision do to a franchisee's autonomy? Very little, according to Stephen. "The franchisee is in business for himself, but not by himself," he explained. "We don't have any authority over the way he runs his business, except to maintain an AID Auto store up to our standards. But he does have a tremendous amount of assistance and expertise from our organization."

AID corporate headquarters constantly refines the product lines, adding and updating as needed. Each store is supplied with the "AID black book," which Stephen contends is "probably the most extensive in the industry."

The book contains the entire AID inventory, over 22,000 SKUs, by section, part number, packing number, description and price. The store manager simply goes down his pad and lists quantity. Stephen said that stores get 90% of their orders within 24 hours.

Not all stores are on computerized ordering systems at this time. That decision is up to the individual store owner, although headquarters does encourage the investment.

This attention to store needs is the reason behind the success of AID Auto, Stephen said. "The easiest thing I ever had to sell in my life is an AID franchise," he said. "It's good, solid and profitable."

## DETAIL

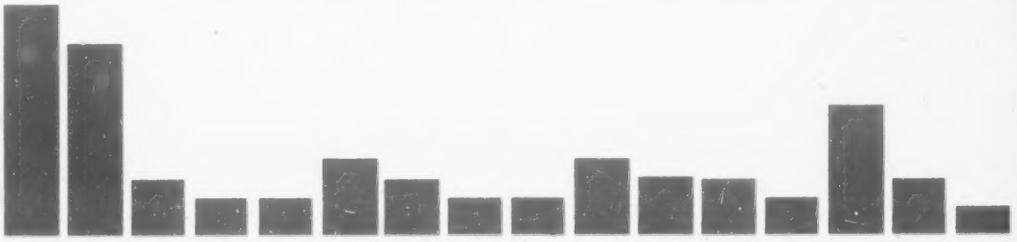
**36%**

of the average jobber's sales are to retail customers, up from 32% in 1982 – the largest increase of any segment of the jobber market, according to the Automotive Information Council.

## PROFILE: DIYers WHO SHOP FOR AUTO SUPPLIES FREQUENTLY

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at DIYers who shopped between 11 and 15 times over the previous year for automotive parts, accessories, and supplies.

| | | | Age | | | | | Income | | | | Hours Per Month Spent On DIY | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | Male | Female | -25 | 25-34 | 35-44 | 45-54 | 55 + | -$20K | $20-30K | $30-40K | + 40K | -1 Hrs | 1-5 Hrs | 6-10 Hrs | 11 + Hrs |
| 100.0% 9.2% | 83.3% | 16.7% | 13.3% | 15.8% | 32.5% | 24.2% | 12.5% | 14.2% | 32.5% | 25.0% | 17.5% | | 14.2% | 57.5% | 18.3% |



# THE AUTOMOTIVE MARKETING INDEX

## THE 1987 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index.The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze/coolant; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

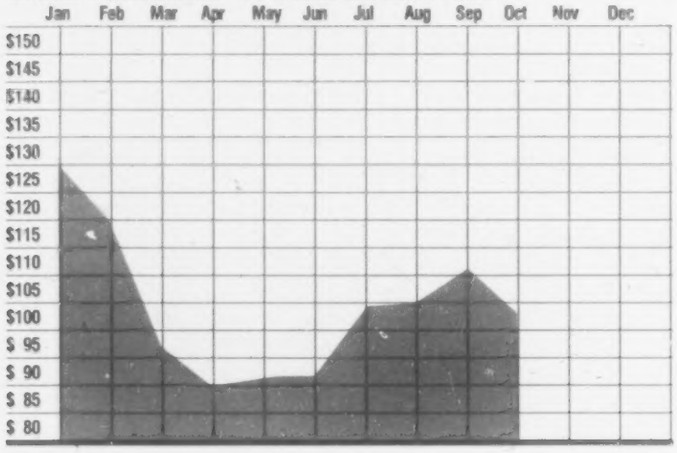
## OCTOBER 1987 NATIONAL AVERAGE MARKETBASKET PRICES

| | | | |
|---|---|---|---|
| A non-resistor spark plug: | $ .77 | A gas-charged shock: | $ 14.51 |
| An oil filter: | 2.14 | One gallon of antifreeze: | 3.45 |
| A can of 10W30 oil: | .76 | One pair of wiper refills: | 2.84 |
| A can of paste wax: | 3.82 | A 40-month battery: | 33.29 |
| An AM/FM/Cassette: | 41.58 | Total: | $103.16 |

## OCTOBER AM MARKETBASKET PRICES BY MARKETING AREA

| | | | |
|---|---|---|---|
| 1. Greenbelt East: | $102.44 | 3. Smokestack East: | $107.19 |
| 2. Megapolis East: | 83.78 | 4. Old South: | 109.52 |
| | | 5. Caribbean South: | 103.19 |
| | | 6. Smokestack Central: | 95.84 |
| | | 7. Grainbelt Central: | 101.14 |
| | | 8. Spanish West: | 107.50 |
| | | 9. Desert West: | 121.10 |
| | | 10. Greenbelt West: | 100.10 |

## NATIONAL AVERAGE MONTHLY 1987 AFTERMARKET BASKET PRICES




## AFTERMARKET BUSINESS INDICATORS

| | Unit/Base | Mo/Qr | Current Period | Prior Period | Year Ago, Same Period | Low (61-87) | High (61-87) |
|---|---|---|---|---|---|---|---|
| Consumer Confidence | (85 = 100) | Sept | 114.8 | 110.7 | 89.7 | – | – |
| Prime Rate | % | Oct 22 | 9.00 | 9.25 | 7.50 | – | – |
| Personal Income | Billion $ | June | 3,731.0 | 3,717.18 | 3,528.1 | Jan 61 403.8 | June 87 3,731.0 |

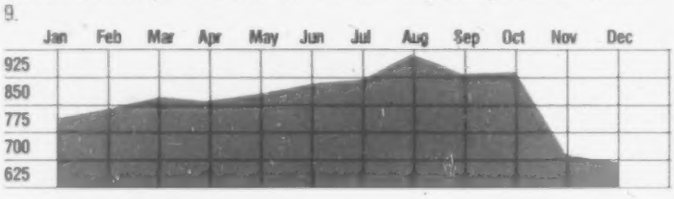
## 1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various aftermarket-related common stocks in various exchanges for the 52 week period prior to December 9.

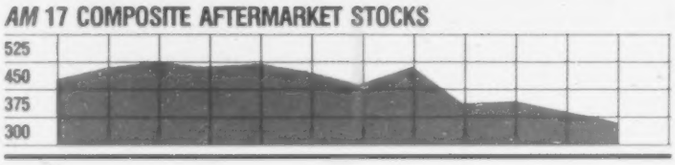
| | Exchange | 52-week High | 52-week Low | 12/9 Quote | P-E Ratio |
|---|---|---|---|---|---|
| Armor All | OTC | 27 1/4 | 10 3/8 | 13 3/4 | 15 |
| AutoSpa | OTC | 6 1/2 | 7/8 | 1 | – |
| Champ Parts | OTC | 12 3/8 | 4 | 4 7/8 | 16 |
| Champ Spk Plg | NYSE | 16 3/8 | 7 7/8 | 9 3/4 | 18 |
| Crown Auto | OTC | 4 3/8 | 3 | 3 1/4 | – |
| Dana Corp. | NYSE | 54 1/4 | 28 1/2 | 29 | 12 |
| Durakon | OTC | 14 | 7 1/2 | 8 1/4 | 9 |
| Echlin | NYSE | 25 3/8 | 10 3/4 | 12 3/4 | 14 |
| Facet | NYSE | 23 1/8 | 10 1/2 | 15 | 15 |
| Genuine Parts | NYSE | 44 3/8 | 27 1/4 | 34 5/8 | 20 |
| Grand Auto | AMEX | 25 1/4 | 8 3/8 | 9 1/8 | 68 |
| Modine | OTC | 22 3/4 | 11 3/4 | 15 | 10 |
| Mr. Gasket | OTC | 15 | 4 7/8 | 5 1/4 | 125 |
| Pnkr Hannfin | NYSE | 49 | 24 1/2 | 35 3/4 | 18 |
| Pennzoil | NYSE | 95 | 38 1/2 | 74 7/8 | 57 |
| Pep Boys | NYSE | 18 7/8 | 9 1/2 | 13 | 21 |
| Perry Drugs | NYSE | 15 3/8 | 5 3/8 | 5 3/4 | – |
| Quaker State | NYSE | 31 3/4 | 12 7/8 | 15 3/8 | 14 |
| Rite Aid | NYSE | 46 1/4 | 28 1/2 | 34 15/16 | 16 |
| Sealed Power | NYSE | 39 5/8 | 21 3/4 | 28 | 10 |
| Stan Mtr Prod | NYSE | 25 3/8 | 11 1/8 | 13 1/8 | 10 |
| Superior Ind | AMEX | 19 3/8 | 9 | 10 3/4 | 7 |
| TBC Corp. | OTC | 13 3/4 | 3 3/4 | 8 7/8 | 9 |
| TRW | NYSE | 70 | 37 | 44 7/8 | 15 |
| Tenneco | NYSE | 62 1/2 | 36 1/8 | 41 5/8 | – |
| Tracor | NYSE | 33 | 16 3/4 | 31 1/2 | 21 |
| Trak Auto | OTC | 19 | 7 | 9 | 17 |
| Triad Systems | OTC | 15 1/8 | 7 1/2 | 9 | 13 |
| Western Auto | OTC | 17 | 5 3/4 | 6 1/2 | 16 |
| Witco | NYSE | 47 3/8 | 26 5/8 | 20 3/4 | 11 |

## DOW JONES 65 COMPOSITE STOCKS

Dow Jones 65 composite stock and *AM's* 17 aftermarket stock price as of December 9.




## *AM* 17 COMPOSITE AFTERMARKET STOCKS



## PRODUCT OF THE MONTH: OIL OR GAS ADDITIVE

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed a gas or oil additive during a 12-month period.

| | | | Age | | | | | Income | | | | Hours Per Month Spent On DIY | | | | Number Of Cars Responsible For | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | Male | Female | -25 | 25-34 | 35-44 | 45-54 | 55+ | -$20K | $20-30K | $30-40K | 40K | -1 hr | 1-5 Hrs | 6-10 Hrs | 11+ Hrs | 1 | 2 | 3 or More |
| 100.0% | 63.5% | 36.5% | 14.8% | 29.4% | 23.9% | 16.8% | 14.6% | 26.9% | 20.9% | 12.6% | 25.5% | 21.2% | 54.4% | 12.9% | 9.3% | 42.0% | 34.9% | 23.1% |

# MARKET LINE

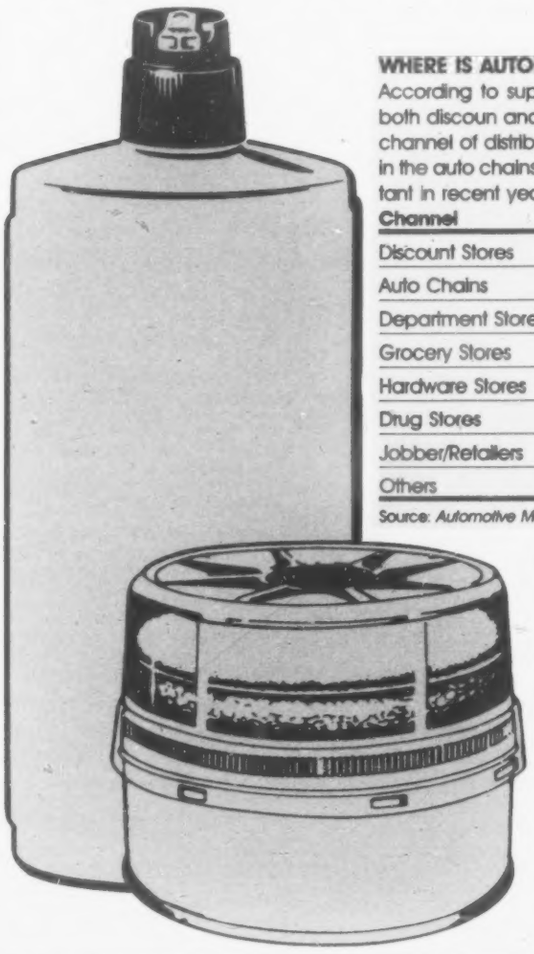
MARKET ANALYSIS

## Will Wax Market Wane In 1988? New Ads May Grow The Market

"There's not a lot to cheer about in the wax market," was the cheery reply of one supplier when we said we were doing a story on the market. "It's about a $170-$180 million market at retail, but sales are flat. The core users are still there, but we're not pulling in a lot of new users. And some light users are falling away."

Flat sales mean market growth of about 1% annually. At first glance, this may seem surprising, especially when you realize that only roughly half of all vehicle owners wax their vehicles each year. On the average, they buy about 1.9 cans a year. This means there's a potential market of half the vehicle owners in the U.S. available to expand the market.

But suppliers said several factors have hindered market growth in recent years. First, new clear-coat paints used by OE manufacturers keep the shiny new look longer with only a wash. In fact, traditional waxes that use abrasives to remove oxidation from paint may actually give poor results when applied to a clear-coat finish. However, wax suppliers are formulating new waxes without abrasives geared toward new paints.



**WHERE IS AUTOMOTIVE WAX SOLD?**

According to suppliers, mass merchandisers (including both discoun and department stores) are still the major channel of distribution for wax. However, consolidations in the auto chains have made this channel more important in recent years.

| Channel | Percentage Of Total Sales |
|---|---|
| Discount Stores | 30-35% |
| Auto Chains | 30-35% |
| Department Stores | 10-15% |
| Grocery Stores | 5-10% |
| Hardware Stores | 5-10% |
| Drug Stores | 3-5% |
| Jobber/Retailers | 3-5% |
| Others | 3-5% |

Source: *Automotive Marketing* estimates from industry sources.

**WHAT KIND OF WAX IS SOLD?**

Although percentages vary by several points each year, the majority of wax buyers prefer soft paste waxes which average about 45% of all waxes sold.

| | |
|---|---|
| Soft Pastes | 45% |
| Liquid Waxes | 35% |
| Hard Pastes | 10% |
| Sprays | 10% |

Source: *Automotive Marketing* estimates from industry sources.

Secondly, as one supplier put it, "There's a trend in society not to do things that take work. Yuppies don't wax their cars. They take them to car washes and put a spray wax on it. They don't care that the wax won't last. They have more important things to do with their time. And, the perception is that it takes time to do a good wax job." Also, with more working women, families are seeking "quality" time instead of DIY tasks.

Finally, it's a fairly quiet category in terms of advertising. Turtle Wax, the largest supplier, is also the only major advertiser in the category. Total wax advertising was only about $3 million in 1986, down from close to an annual $11 million earlier in the 1980s when several companies were pushing new products like the polys and spray waxes.

"There's a proliferation of new products every year," one supplier said. "But rarely any ad support. Consumers see tons of items on the shelves, but they haven't heard anything about them. So consumers resort to buying products they recognize. Then, the trade press calls this a back to basics movement."

Another supplier noted that there're lots of little suppliers who can't afford big ads. And there are several companies that have other lines to promote and can't make a major commitment to wax ads.

Things may change in 1988, however. Armor-All Products, Irvine, CA, which introduced a wax line at the APAA show, plans to spend $5 million promoting wax this year. A competitor said, "1988 may be very interesting. We're hoping Armor-All's spending will grow the category. If they only steal market share, we're all pretty much shut out, and ad budgets will stay low. But if the category shows growth, then everyone will jump on the bandwagon."

The impact of Armor-All on the market will be the key event of 1988. Armor-All already dominates the $225 million protectant market to such an extent that for all intents and purpose it *is* the protectant market. Some competitors give them at least an 80% share, and others put it clos-

er to 90%.

The Armor-All name makes Armor-All a formidable entrant to the market. However, wax consumers tend to have strong brand loyalties and competitors wonder about the carry-over of brand loyalty from one category to another.

"I'm sure they've done their homework," one supplier said. "But whenever we do focus groups, consumers say we could market an Armor-All type product. But we've never had success. Still, if they just get consumers to buy one can, they'll get a good share of the market next year. The problem will come the second year with repeat business."

Such caution has strong roots in common sense. Through the 1980s, several new products hit the wax market with outstanding first time sales, but failed to win repeat business. Suppliers pointed to the initial impact of the polys, and "five years later," said one, "there's only Blue Poly left."

"Waxing a car is a subjective activity," one supplier said. "It takes a lot of work to wax a car right. And so consumers hate to be disappointed. They'll stay loyal to a brand that gives them good results." That's one reason why the two best selling SKUs are Turtle Wax Hard Shell and Borden's Rain Dance, both over ten years old.

Turtle Wax, Chicago, and Borden Inc., Columbus, OH, not only have the best selling wax SKUs, but their total lines account for about two-thirds of the total wax market.

Turtle Wax is the leader with about 40% of the market. Turtle has high brand recognition and a wide line. It has consistently been innovative with new products and merchandising support for the category. Distribution is so good that the main sales objective is getting more SKUs into chains rather than finding new chains to sell. Finally, although the company is looking for new markets, automotive waxes have been the company's major business since founder Ben Hirsch began brewing batches of wax in his bathtub.

Weaknesses? Perhaps. "If I knew any," said one competitor, "I'd attack them." Some competitors think the Turtle line may be too wide. "Over proliferation of product," one said. "The retailer has to carry nine, ten SKUs to get the benefit of the line. He's stuck with some slow movers. Plus, they're always adding new numbers. The consumer may look at the numbers and ask: what's wrong with Hard Shell?"

Borden seemingly has no such problems. Although the company has a complete line, Rain Dance dominates Borden sales. Selling at over $6, Rain Dance is also the dollar sales leader. Borden has about 20-25% of the market and strong brand recognition.

The results of one supplier's consumer focus group may be interesting. Turtle dominates West Coast sales, according to participants, because consumers feel they don't need a product named Rain Dance in an area where it seldom rains. Borden does much better in bad weather area such as the East and Midwest. Finally, as part of a larger company, Rain Dance does not get Borden's total advertising commitment, a large share of which goes to glues and spray paints.

Simoniz (First Brands, Danbury, CT) is currently number three with about 12-16% of the market. But in the 1950s, Simonize was the number one wax brand. Many older consumers remember when "simoniz" was a verb instead of just another wax brand. DIYers used to "simoniz" a car, not just than wax it. However, younger consumers do not have this perception of the brand.

Competitors said the brand suffered from undergoing a series of owners, several of which put no money into the brand, and adding too many new products that played down the Simoniz name. This may change as First Brands decides exactly how it wants to position the line.

The First Brands sales force has a "nice portfolio," according to competitors, with Prestone, STP, and Simoniz. In the long run, this should help the brand.

About a half dozen other brands compete for the remaining 20-25% of the market. Probably the largest of these is Kit Products, (Northern Labs) Manitowoc, WI, which has one of the better selling single SKUs in its Kit Wax. Blue Coral, Cleveland, has the benefits of Blue Poly, the first and remaining poly on retail shelves, but competitors said the company's efforts are devoted to its better selling lines of cleaners.

There are also Meguiar's, Newport Beach, CA, and Mothers Polish Co., Huntington Beach, CA. Mequiar's does very well selling to body and paint shops; its consumer line appeals to car buffs. Mother's sells mainly through performance shops. "They sell to the guy who's a zealot about waxing his car," a competitor said of both.

Wax suppliers are generally bracing for a continuing fight for shelf space in 1988, a fight made worse by the entrance of Armor-All. Projections for Armor-All sales run to about 10% of the market in 1988. And, the majority feel that the share will come from other suppliers rather than market growth.

Who will lose? Well, impulse sales are

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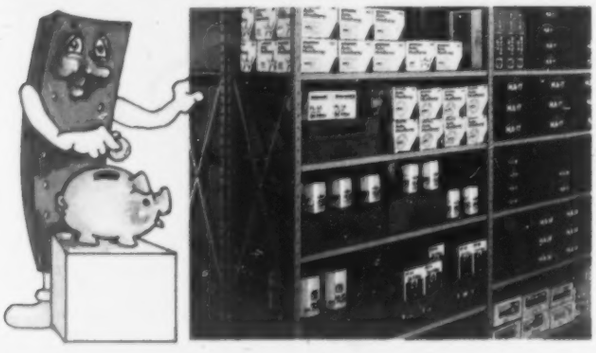

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## MARKET LINE

crucial to selling wax. "Store placement is everything," one executive noted. The keys to impulse sales are endcaps and eye-level facings which go to companies with money to spend. There are also rebates to spark wax sales. More rebates also favor the larger companies.

"There's going to be a tough road ahead for the small guys in this market," one supplier summed up. "There always a desire to cut SKUs and now Armor-All's out with four new SKUs. They have enough marketing muscle to get at least two SKUs on the shelf. And how is the retailer going to eliminate SKUs to make room? He's going to eliminate from the bottom. The slowest movers are going to be on the block. But he's probably not going to eliminate slow movers from companies with a lot of merchandising support available. The small company that survives will be the guy who's most tightly niched. He's got to offer a real value to a particular customer. Gimmicks are gone. That's the key for the small guy." ■

## MARKET LINE

### Futuristic Research Helps Retailers Sell

Demographic research has been part of the careful retailer's game plan for decades. But the latest advances in this field promise to provide, in the words of one market analyst: "the optimum retail planning tool."

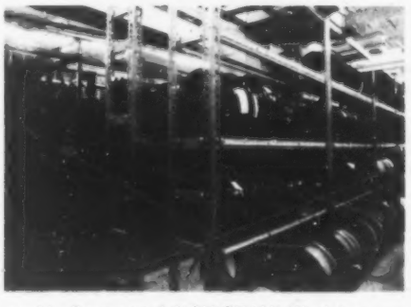
With the aid of up-to-the-minute computer technology, several firms offer services that enable retailers and manufacturers to target product and service sales. That kind of information can affect advertising, ordering—and in some cases, actual store location and design.

One of the grand-daddies of such research firms is New York-based Claritas. It has developed what it calls "geo-demographics" in a system called "Prizm."

Basically, Prizm divides Americans into 40 groups, arranged according to what it feels are six key factors: housing, "social rank," household composition, mobility, ethnicity, and degree of urbanization.

Based on the fact that similar groups of people tend to live near each other, Claritas researchers have created geo-


## SHELVING AND MORE



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# AFTERMARKET RETAILING & SERVICE: CHANGING INTO THE 1990s

The aftermarket has changed drastically over the past 20 years. Here is a look at how we see it changing into the 1990s.

by **John Wirebach,** Senior News & Features Editor, **Gail Krueger-Nicholson,** Senior Editor, **Philip Katcher,** Research Editor and **Rosemarie Kitchin,** Editor

Today's aftermarket breaks down, very roughly, into one-third DIY and two-thirds service sales. Retail chains, mass merchandisers, and jobber/retailers compete for $30-$35 billion in DIY sales. Traditional repair facilities (garages, service stations), vehicle dealers, and repair specialists compete for the $60-$65 billion service market, with a small amount going to mass merchandisers and auto chain stores with service bays.

To assemble this special section on changes in customers and competition in the 1990s, we examined the retail and service markets and asked three questions about each:

- Who will be the customer?
- Who will be the competition?
- How will operations change to compete in the 1990s?

(To find out how the individual segments of these markets view the 1990s, read the pages following this report.)

### Retail Customers In The 1990s

Just as he (and she) was in the 1970s, the DIYer will remain the key component of change in the 1990s. The question is whether or not DIY work will increase or decrease; whether or not more DIY customers will become service customers in the 1990s. There are strong arguments for both sides of the question.

Those who say the DIY market will decline point to the complexity of new vehicles and other issues like extended warranties. On the other hand, people like Bud Rose of Champion Auto, Minneapolis, say the DIY market is only pausing to assimilate changes in technology.

For years many people have said that DIY work will decline and yet DIY sales remain high. DIYers seem determined to work on their own vehicles no matter what the technological challenges.

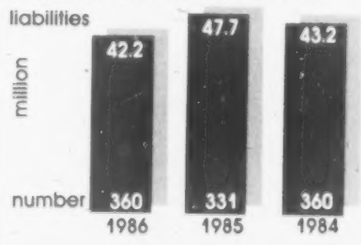
So it seem to us that retail sales will probably change the least in the 1990s. But the DIYers who shop those stores in the 1990s will be a little older (by the year 2000 one out of three drivers in the U.S. will be over 55) and a bit more well-heeled than the DIYers of today. The DIYers of the 1990s will also be more "technology sensitized," too, due to the growth of computer education and computer familiarity. But they may not be willing to carry those computer skills over to the world of under-the-hood work, at least not right away.

In fact, the biggest change in DIYers in the 1990s will not be so much in who they are but in the kinds of jobs they do. Those changes will force retailers to re-evaluate

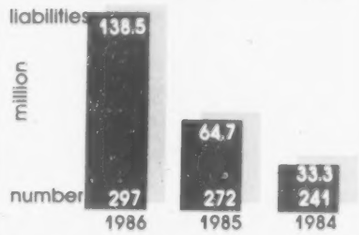
**FAILURE RATES**

The number of automotive wholesalers failing reached an all- time high in 1986 as 297 firms went out of business owing $138.5 million.

**Automotive retailer failure rate:**




**Automotive wholesaler failure rate:**




Source: Dun & Bradstreet

the products they sell and how they sell them.

In the 1990s, the DIY market may be limited to just minor, routine maintenance activities, according to a 1986 research project released by Dr. David E. Cole, director, Office for the Study of Automotive Transportation, University of Michigan, Ann Arbor, MI.

But the survey, a Delphi forecast based on the responses of 48 marketing executives from vehicle manufacturers and suppliers, also predicts an increase in importance for routine replacement items and fluids in the DIY segment, and for more DIY work with tires, wheels, brakes, and shocks. However, DIY work on traditional ignition systems, non-modular electronics, fuel injection systems, and all engine components will decline.

Retailers may have to switch their emphasis from hard parts to more chemicals and hang-on accessories. Today, many retail chains provide deep parts lines as well as extensive chemical and accessory lines to meet all possible DIY needs.

The Delphi study also gives electronics systems such as computer control modules positive predictions for future DIY activity, and at least one automaker agrees. General Motors sees more handheld diagnostics systems being used by DIYers (and sold by retailers), prompted in part by a wide distribution of software programs for vehicle repairs. DIYers will also get more help from on-board diagnostic systems.

One aftermarket chain is already stocking—and selling—replacement computer chips as a performance product. The retailer finds that stocking the chips as performance parts rather than as electronic components overcomes DIYer reluctance about replacing them. The supplier has de-coded the GM computer program that receives signals from engine sensors to adjust various engine functions. The supplier claims the replacement chips allow engines to run cooler and deliver 15% greater power.

The retail market for such chips is a long-term one, especially as automakers strive to produce 100,000 mile cars. Retailers will carry more computer goods such as replacement chips while computer software stores will carry aftermarket how-to diagnostic programs.

### Retail Competition In The 1990s

New competition for retailers in the 1990s will come through specialization. For instance, in Corona, CA, Captain Zooms, a chain of stores aimed at the light truck aftermarket, opened in 1987. The light truck market is expanding, and operations like this may prove to be serious competition for retailers. In the performance field, operations like California-based Super Shops already have 100 stores. Performance WDs like the trio of G & M, Capital Heights, MD; Arrow Speed Warehouse, Kansas City; and Competition Specialties, Auburn, WA; put together the Performance Corner, a short-line performance program for 800 jobbers. And, as import parts become more important, the import specialist jobber will continue to take a share of the DIY market. Finally, a number of dealership retail parts for DIYers programs, chiefly at Ford, Toyota, Nissan, and Hyundai, have sprung up in recent years. All of these competitors will have an impact on the retail market.

There is also the possibility of stronger automotive programs in discount/department stores. Full-line discount and department stores have one clear advantage in attracting customers: they offer a customer the chance to buy everything he needs in one place at one time. This is, and will be, an especially important retailing advantage in the future, as more and more consumers have less and less shopping time available.

However, mass merchandisers have had limited success in finding their role in the aftermarket. Their total amount of sales in the automotive field is large, but not as large as other products they sell. On the average, some 6% of discount stores sales, nationwide, are made in their automotive departments. By way of comparison, that's about half their percentage of sales from women's wear.

But, the chief competition to the retail chains for DIY sales will probably come from the traditional WD that owns stores. WDs are taking steps to reach the end-user customer, whether the customer is a DIYer or a dealer. Although WDs have encountered some operational problems, owned stores can be a profit center for the WD that can run them effectively. For example, The Genuine Parts company-owned stores (about 500 out of 6,000) account for about a quarter of Genuine Parts automotive sales. Other owned operations such as the O'Reilly stores (Ozark Automotive, Springfield, MO), Taylor Parts Stores (TPS, Andalusia, AL), and Parts City (Alexander-Seewald, Atlanta), to mention only a few, have had outstanding success in selling retail. WD-owned stores have the advantage of more SKUs for the DIY customer and more control over operations than running retail programs through independent jobbers offers. There are already some 3,000 WD-owned stores and this number will increase in the 1990s.

### Retail Operations In The 1990s

No matter who the customers will be and no matter who the competitors will be, retail chains will simply have to operate smarter in order to survive into the 1990s. The days of month-to-month, Mom-and-Pop retailing are over. Consolidation and streamlined operations will be the keys to aftermarket retailing in the 1990s. Many retailers will be meeting the challenges of the 1990s with electronics.

Retailers who ignore electronics "may, in the long term, be losers," according to Bernard Codner, director, Institute of Retail Management, California State University at Los Angeles.

Beatrice Westcott, western regional sales director, SASI (Stores Automated Systems Inc.), Bensalem, PA, reminds retailers of the increased potential of advanced POS systems. According to Westcott, the first generation of POS was simply electronic cash registers. The second generation provided some other store applications, such as maintaining employee attendance records. Now, POS has entered its third generation, providing "fully integrated store management" by being linked with other computers to provide management with important operating information. Such systems solve the paradox of "The more we know, the more we want to know," she said.

**PROGRAMMED DISTRIBUTORS**

The top ten programmed distribution groups are:

| |
|---|
| All-Pro Auto Parts, Andalusia, AL |
| APA, Mission, KS |
| Auto Value, Chattanooga, TN |
| Big A, Houston |
| Bumper-To-Bumper, New York |
| Carquest, Tarrytown, NY |
| Federated Auto Parts, Staunton, VA |
| NAPA, Atlanta |
| National Pronto, Springfield, IL |
| Parts Plus, Memphis, TN |

**WAREHOUSE DISTRIBUTORS**

The top ten warehouse distributors are:

| |
|---|
| A.I. Automotive, New York |
| APS Inc., Houston |
| Atlantic & Pacific Automotive, Memphis, TN |
| Cardis Corp., Buena Park, CA |
| Genuine Parts, Atlanta |
| Motive Parts Whse., Fort Smith, AK |
| Parts Inc., Memphis, TN |
| Republic Automotive Parts, Brentwood, TN |
| Steego, West Palm Beach, FL |
| Straus Frank Co., San Antonio, TX |

POS today incorporates a leap in functionality, a "quantum" reduction in cost, and an expansion of operational possibilities, Westcott said. Many of these new systems take advantage of UPC, or bar codes, an area of increasing interest to aftermarket retailers, to improve check-out accuracy and speed. And many of the successful retail chains are taking advantage of these systems.

For instance, the giant Checker/Schuck's/Kragen chain is installing new POS computerized cash registers in all of its stores. The system boosts the chain's SKU tracking capacity from 12,000 to 30,000 with full catalog capability.

Electronics may also provide a partial answer to retail chains' concerns about the shortage of trainable, reliable store help. Thomas Rauh, president of Intermark, New York, said his company has designed a number of marketing minicomputers. These are installed in stores to provide specific, useful information on nearby products to customers. Their use can supplement trained sales personnel.

### Retail Service In The 1990s

Just in case DIYers cease to DIY, retailers are also looking harder at the service market. Operations like Pep Boys, Philadelphia, already get as much as 40% of their sales through service, and chains like Chief, Dallas, and AutoZone (formerly Auto Shack), Memphis, TN, are testing service programs.

The reason is simple. Changes in lifestyle favor service operations. Not only is the typical American older, but he wants convenience. And, as more females own and maintain their own vehicles, the automotive field is more cognizant of the female customer.

Changing lifestyles favor the repair specialist who applies retail merchandising techniques to service work. Time-pressured consumers will take ten minutes for an economical oil change at a quick lube rather than drop off the vehicle for the day at a service station. Female customers are attracted by the clean shops with pleasant waiting rooms.

### Service Competition In The 1990s

Just as the auto parts chain store changed the DIY market in the 1970s, the repair specialist is changing the service market in the 1980s, and will continue to have a major impact on the market. A good example is the exhaust business. In 1971, exhaust products were the number one line in traditional WD sales. By 1985, exhaust had slipped to number eight. The main reason was the growth of specialty muffler shops. Muffler specialists now have some 47% of the replacement muffler market compared with about 22% in 1975. Although other, newer specialists such as tune-up and quick lubes have much lower shares in their categories, their shares are also growing rapidly.

The success of Jiffy Lube, Baltimore, in building over 500 shops in less than ten years is a good example of the repair specialist. Jiffy has good signage, good locations in predictable neighborhoods, and a well presented story: reliable service, no appointment needed, customer friendly hours, and acceptable pricing.

In addition, the repair specialists apply the lessons of retail advertising to repair service. The three largest TV automotive advertisers last year were Midas Mufflers, AAMCO Transmissions, and Meineke Mufflers. Not far behind were MAACO, Precision Tune, and Jiffy Lube.

Repair specialists also benefit from specialization. Because they specialize in limited types of repair, training and SKUs needs are drastically reduced. However, this advantage will be reduced as the specialists branch out into second and third service categories.

Although several of the exhaust suppliers already own muffler shops, one completely new entrant to the repair specialist field in 1987 was Modine, which opened four radiator repair shops in auto malls. Whether this is a long-term trend or just a one-shot deal remains to be seen.

**AFTERMARKET RETAILERS**

The top 25 aftermarket retail chains are:

| |
|---|
| ADAP, Avon, MA |
| Advance Stores Co., Roanoke, VA |
| Aid Auto, Inwood, NY |
| Auto Zone (formerly Auto Shack), Memphis |
| Auto Works, Pontiac, MI |
| Champion Auto Stores, New Hope, MN |
| Checker/Schuck's/Kragen, Phoenix |
| Chief Auto Parts, Dallas |
| Crown Auto, Eden Prairie, MN |
| Discount Auto Parts Inc., Lakeland, FL |
| Grand Auto, Oakland, CA |
| Guarantee Auto, Indianapolis, IN |
| Hi-Gear Tire & Auto Supply, Capitol Heights, MD |
| Hi-Lo Consolidated, Houston |
| Nationwise Inc., Columbus, OH |
| O'Reilly Automotive (Ozark) Springfield, MO |
| Otasco, Tulsa, OK |
| Pettigrew-Smith Auto Supply, Houston |
| R & S Strauss, Union, NJ |
| Steego Auto Parts, West Palm Beach, FL |
| Super Shops, San Bernadino, CA |
| The Pep Boys, Philadelphia |
| Trak Auto, Landover, MD |
| Western Auto, Kansas City, MO |
| Whitlock Corp., Des Plaines, IL |

Repair specialists should do very well in the 1990s, particularly as many of the specialists get into the auto malls springing up around the country. There are about 200 auto malls now, and developers predict as many as 2,000 by 1990. Most malls offer eight to 12 repair services in one location. To the average consumer, the auto mall is a complete automotive facility, offering one-stop service shopping. A customer who comes for a lube/oil change one day, will probably come back to use the muffler shop in the next bay.

The repair specialists are forcing some long-time discount/department store programs to change the way they do business. Zayre's, for example, which once operated 125 service centers, dropped service in July 1987. Zayre's cited intense competition, personnel problems, and the growth of service specialists as reasons. Zayre's closings followed similar moves by Target Stores, Gold Circle, and J.C. Penney. And, K mart, which continues to offer service in many of its locations, has killed off almost 400 unprofitable or marginal centers within recent years.

Indeed, some mass merchandisers have been considering different ways of offering service and have come up with schemes that closely resembles repair specialists. For example, Wal-Mart and Sears are both testing a quick lube. Zayre's converted a number of its old service centers to discount tire centers on an experimental basis. And Montgomery Ward announced in September 1987 that it would open "Auto Express" centers that do tire, battery and other installation work, with a 59-minute service guarantee. Several centers will feature USA Auto Appearance Centers (detailing shops) under the same roof as the Auto Expresses.

Not only are repair specialists changing the competitive situation, new vehicle dealers are showing renewed service strength. Although there's little direct evidence of this yet, the new extended warranties offered by automakers may give the dealerships all the work they can handle in the 1990s. Import dealers have always maintained a high market share, and domestic dealers are looking to profit from their example. Interestingly enough, auto mall developers see the strong possibility of OEMs or dealer groups setting up repair centers in auto malls. The increasing complexity of new vehicles will work to the dealer's advantage since new repair equipment will become an expensive proposition for service operations.

Add tire store service programs and revived oil company operations such as Sohio's Pro Care and Shell's Car Care to the impact of the repair specialists and

the new vehicle dealer on the service market, and you see a strong challenge to the traditional repair shops. The response to the challenge by WDs will mean a change in the way WDs operate.

### Changing Operations In The 1990s

WDs suffered most from the booming DIY market and the slumping repair market of the 1970s. To keep customers, WDs changed operations. Through buying and marketing groups (programmed distribution), the WD made its customer, the jobber, competitive in the retail market. In 1971, according to Motor Equipment Manufacturers Association (MEMA), jobbers did 9% of their total business with DIYers; by 1986, this percentage had risen to 36%. Nevertheless, many weak WDs and jobbers went under.

Although such horizontal consolidations will continue in the traditional market, vertical integration will probably become more important in the 1990s. Programmed distribution was the first step in vertical integration, tightening the bonds between WD and jobber. From two groups (NAPA and Big A) and perhaps 5,000 jobbers in 1970, programmed distribution grew to two dozen groups and 17,000 jobbers in 1986.

Although programmed distribution made most jobbers competitive in the retail market, the new challenges to their wholesaler customers will mean the bonds between jobber and WD will continue to tighten. Parts proliferation and advanced technology will require jobbers to align themselves closer to a WD. Best estimates say part numbers will increase about 15-20% in units and even more in dollars by the 1990s. And, as a WD told us, "Where are small jobbers going to get the money to put new numbers in? I'm talking 24,000 new numbers in the next few years. The investment is $25,000 in fuel injection alone. I'm talking about jobbers whose take-home profit at the end of the year isn't much more than that... Financial needs alone will make WDs get more involved in controls."

Add to this the cost of training for new technologies and jobbers are faced with serious challenges. According to the MEMA jobber study, a jobber store a day closed during the past five years. WDs simply cannot afford to let their customer base dissipate. The future traditional market will more closely resemble the retail market where programs are decided at the highest level. As Ham Sloan of General Parts, Raleigh, NC, put it in an interview, there's "no room for error in today's market."

WDs are dealing with the "new" service market in three ways. First, an emphasis on "master installer" plans that allow jobbers to discount parts to preferred customers. However, as WDs note, jobbers are weak on paperwork and have problems with the administrative tasks involved, and few jobbers are selective enough in choosing customers. More desirable are programs that push programmed distribution one step further to the dealer level. A good example of this is the NAPA Auto Care Program. The benefit to the dealer is a national advertising and warranty program, along with training clinics. The result is a program unified at WD, jobber, and dealer level.

Finally, many WDs are simply bypassing the jobber and selling direct to large repair customers. We expect to see much more of this in the 1990s. Programmed WDs had many problems convincing jobbers to be effective retailers in the 1980s; they don't want the same problem when dealing with a much more important (to them) wholesale market.

### Moving Into The 1990s

Nothing is so uncertain in the future of the automotive aftermarket as the patterns of distribution. Any efforts at long range (by that, we mean past next year) prognostication of either players or strategies run the risk of looking very foolish in ten years. We may be completely wrong.

For example, imagine the reaction of any aftermarket player in 1968 if you were to tell him that in 1988 parts for imports would make up 25% of the aftermarket, that the Pep Boys retail chain would be a half-billion dollar operation, and that E.J. Korvette, then the nation's largest discounter, would be out of business.

Furthermore, imagine his reaction if you suggested that WDs would own about 10% of all jobber stores, that 100,000 service stations would go out of business, and that DIY sales would become almost a third of jobber business? He would say you're crazy; yet all that happened in the 1970s and 1980s.

And here come the 1990s. ■

**DISCOUNT/DEPARTMENT CHAINS**

The top ten discount/department chains are:

| |
|---|
| Ames Department Stores, Rocky Hill, CT |
| Associated Dry Goods, Norwalk, CT |
| Dayton-Hudson, Minneapolis |
| Hills Department Stores (SCOA Ind.), Canton, MA |
| K mart, Troy, MI |
| Montgomery Ward, Chicago |
| Sears Roebuck, Chicago |
| Stop & Shop, Braintree, MA |
| Wal-Mart, Bentonville, AR |
| Zayre Corp., Framingham, MA |

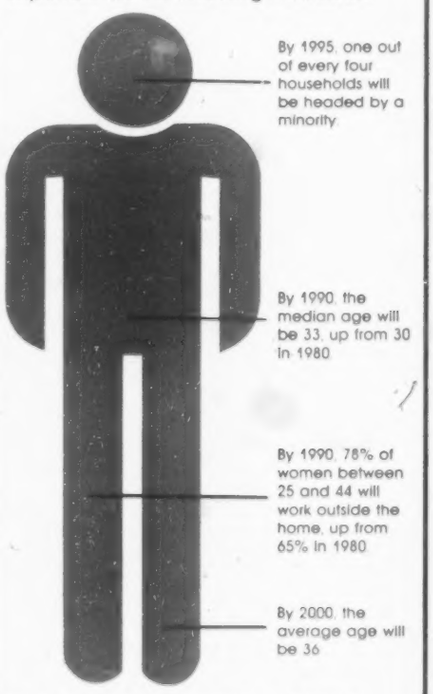
**SERVICE SPECIALISTS**

The top 15 service specialists are:

| |
|---|
| AAMCO, Bala Cynwd, PA |
| Grease Monkey, Denver, CO |
| Jiffy Lube, Baltimore |
| MAACO, King of Prussia, PA |
| Meineke Discount Muffler, Charlotte, NC |
| Midas, Chicago |
| Mr. Transmission, Nashville, TN |
| Novus, Minneapolis |
| Precision Tune Inc., Sterling, VA |
| Quaker State Minit Lube, St. Lake City |
| Speedy Muffler King, Morristown, NJ |
| Sunshine Polishing Systems, San Diego, CA |
| Tuff-Kote Dinol, Highland Park, MI |
| Tuneup Masters, Buena Park, CA |
| Ziebart Corp., Troy, MI |

**THE CONSUMER OF THE 1990s**

The consumer is changing, and those changes will change the aftermarket. Ethnic groups and older people are the fastest growing groups in the country. By 1995, one out of every four households will be headed by a minority. By 1990, the median age will be 33, up from 30 in 1980. Also, in 1990 78% of the women between 25 and 44 will be working women, up from 65% in 1980.By 2000, the average age will reach 36. The lack of time is becoming one of the most important factors affecting businesses.


By 1995, one out of every four households will be headed by a minority.
By 1990, the median age will be 33, up from 30 in 1980.
By 1990, 78% of women between 25 and 44 will work outside the home, up from 65% in 1980.
By 2000, the average age will be 36

Source: The sales planning division of Procter & Gamble

# AUTOMOTIVE RETAIL CHAINS

Retail chains are working harder and smarter to retain their share of aftermarket customers into the 1990s. The chains are doing so by meeting the needs of a more sophisticated DIY customer with up-to-the minute chemicals, accessories, and parts inventories including new, computer-based electronic items.

The retail chains are also moving to capture a share of the non-DIYer aftermarket consumers by expanding or adding service at their existing facilities, and, in some cases, by building their own "quick service" facilities.

The retail chains are also changing how they conduct their day-to-day business. The aftermarket leaders recognize that they are not just in the business of selling automotive parts, but are also in the business of running companies.

Retail chains are consolidating through mergers, acquisitions, and by streamlining their internal business staffs and procedures. And, just like the DIYers they serve, many retailers will meet the challenges of the 1990s with electronics.

But electronics alone are not the answer. Retailing in the 1990s will involve meeting people challenges: the shortage of "good" retail help is expected to continue, DIYers will need continuing education to keep up with changing technology, and the retail chains will have to provide it. One retail chain, Crown Auto, is ready to meet those challenges. ■

Crown Auto has been dragged, sometimes kicking and screaming, into the 1980s by the chain's president Floyd Adelman. The process has been hard on the Eden Prairie, MN, retailer, but it has been rewarding. Today, the 57-store chain, once a single store operated by Adelman's grandfather, does over $36 million in annual sales. Crown Auto is a family-run business that has turned itself into a professionally managed company, the kind of company that will be successful in the 1990s.

In 1983, when Adelman took over as president, the company had been through some tough years. Adelman made the shift from a month-to-month company to a long-range planned company. The mistakes of the past were not to be repeated.

Today, Adelman is looking the 1990s straight in the eye. The challenges he sees for his chain are some of the same challenges faced by all retailers.

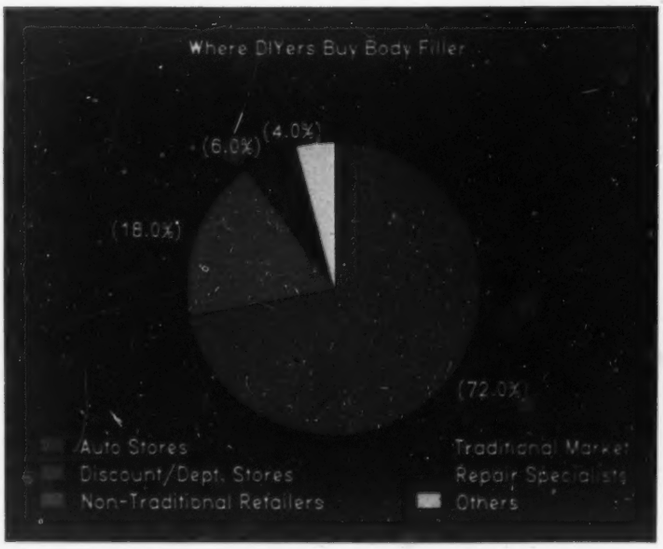
"First, we believe there will still be a DIYer. He is getting older because the population is getting older. And there will be more female DIYers, more self-directed females—not boyfriend or husband directed females. There will be a greater emphasis on service needs due to technology and two income homes. People will be spending money instead of time. We're set here, we have bays," Adelman said.

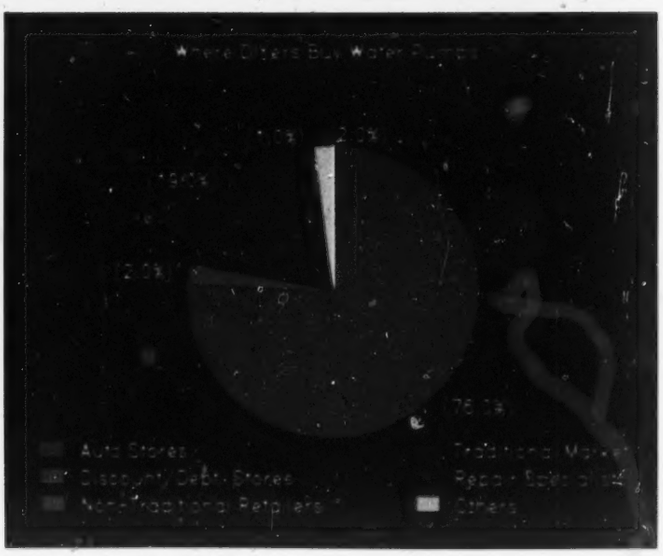
Adelman also spoke of another kind of service. Customers will look for more value as opposed to price. They will want more customer service, more store employee knowledge, and we have to be ready to give it to them. In the 1990s, we will be selling knowledge as well as parts.

"We will have to train our employees to take DIYers into new areas. There was quite a learning curve when cars went from the drum to the disc brake and we helped DIYers to meet that—we can help the DIYers now and in the future too," Adelman said. Adelman established a formal employee training program shortly after he became president and sees training as an on-going company emphasis.

"The whole of customer service will center around what is the most difficult question for the future—how to get a needed part. Just doing that will be more difficult. The Japanese automakers buy 5,000 engines; when those run out, they switch engines. American manufacturers will do the same. The counterman of the future will have to be better trained to help the DIYer just find the right part before he puts it in."

Other things about retailing will change, too, according to Adelman. "There will be a shift of products to service. But the merchandise will still have to be on the shelves whether the DIYers install it or we install. There will be more chemicals, more accessories," he said. ■

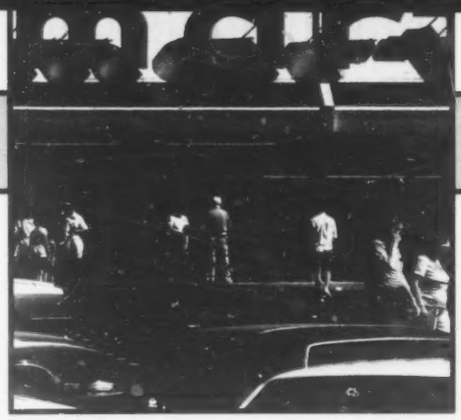


Auto parts stores have their best share of market in the sales of body filler and water pumps among DIYers. Source: AM's 1987 CARS.

# AFTERMARKET RETAILING & SERVICE:

# DISCOUNT/ DEPARTMENT STORES



The discount and department store industry is in a state of flux. In 1961, there were 71 discount chains with sales over $10 million; today, only 16 of those chains are still in business. However, the industry is growing. In 1969, Dun & Bradstreet said that 5.8% of all retail sales in the U.S. that year were at full-line discounters. Sales then were $18.4 billion. Full-line discounter sales in 1986 were $83.2 billion.

The total amount of automotive sales for discount and department stores is large, but not as large as for other products lines they sell. On the average, some 6% of discount stores sales, nationwide, are made in their automotive departments. By way of comparison, women's wear sections produce an average of 12% of total sales.

Still, most discount and department store experts expect their automotive parts and accessories sales to grow faster than the rest of the aftermarket through 1990. They point to the fact that the sale of automotive products has grown almost 1,180% between 1963 and 1986. Those experts believe that by the year 2010 their percentage of sales of automotive products will be around 6.75%, almost a full percentage larger than today. And Montgomery Ward is one department store that is betting its future on the aftermarket. ■

Montgomery Ward, Chicago, owned by Mobil Oil, is one department store chain that has made a serious commitment to the automotive aftermarket. However, how it has done so has changed over the years.

As Bob Schoeberl, Ward's vice president of automotive, summed it up: "Montgomery Ward is moving toward being an automotive specialty store." This began in 1981 when the company reorganized itself as a collection of seven specialty stores, including automotive, under one roof.

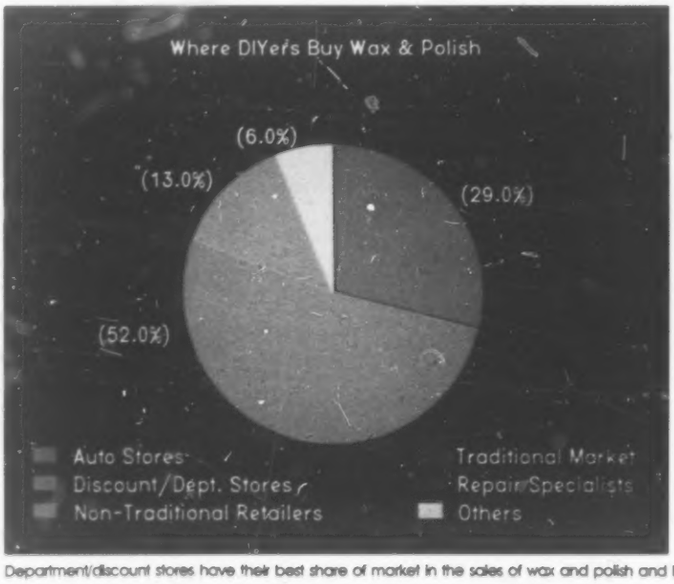
In automotive, that meant offering merchandise, Schoeberl said, to meet the needs of heavy, medium, and light DIYers so "we can address all market segments. The end result is more satisfied consumers and a higher profit margin," Schoeberl said.

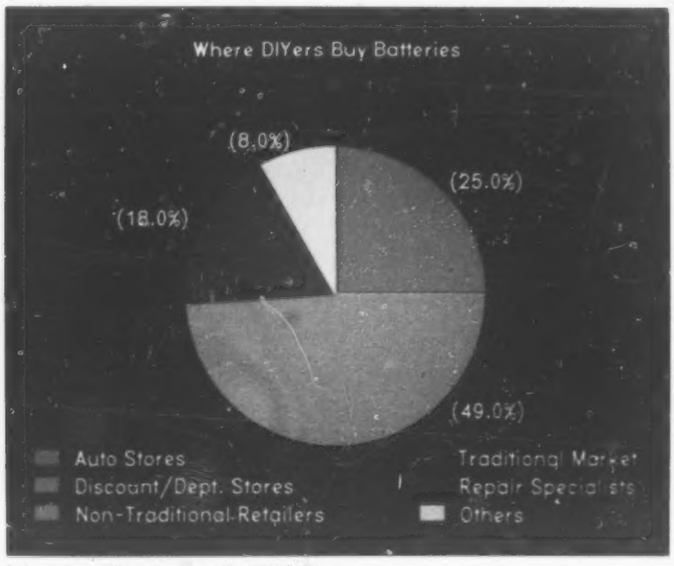
Towards the end of 1984, Ward rehabbed about 100 of its automotive departments, expanding SKUs, on the average, to some 3,900 SKUs. That year Ward also published an automotive catalog, the *Auto Express Catalog*. It included 95,000 part numbers in four areas—high performance, import parts, domestic parts, and accessories. Private label tires, batteries, and accessories were shipped from Ward warehouses and other products were to be shipped direct from participating WDs around the country. The 800-numbers in the catalog connected the customer directly to the WD who answered the phone, "Montgomery Ward." Products were to be shipped within 24 hours. This program was dropped when Mobil bought Ward's.

In 1985, Ward remodeled its Annapolis, MD, location as a flagship store. It gave the automotive department a warehouse look by having wire-rack-style shelving both in the fully exposed stockroom (10 ft. high there) and on the floor (7 ft. high there). The department featured items such as cellular phones, a stereo center, and high performance Michelin and Bridgestone tires.

In Fall 1986, the company began installing a NAPA support program on an experimental basis. NAPA would supply brake, front end, and tune-up parts. The idea proved successful, and in Spring 1987 the company extended the program to all its stores.

Montgomery Ward announced in September 1987 that it would open "Auto Express" centers to do tire, battery and other installation work. Each guarantees 59-minute service; has three or four bays instead of the regular eight bays; is free-standing. They carry nationally branded tires and NAPA branded parts. The centers will feature several USA Auto Appearance Centers which will be under the same roof as the Auto Expresses. ■




Department/discount stores have their best share of market in the sales of wax and polish and batteries among DIYers. Source: AM's 1987 CARS.

# AFTERMARKET RETAILING & SERVICE:

# WDs/PROGRAMMED DISTRIBUTORS

Consolidation and integration will be the key words for the traditional side of the market in the 1990s.

A continuing number of mergers and acquisitions will lead to a consolidation of the market. Fewer but larger WDs. Fewer independent jobbers. Prime examples of consolidation are the A.I. Automotive purchase of almost 20 warehouses and the Cardis consolidation of half a dozen west coast operations.

But integration on every level will also become a factor. For one thing, more WDs will join marketing programs or at least some form of buying group.

However, the key change will be in programmed groups. Programmed distribution became popular chiefly as a method of making jobbers more competitive in selling to the DIY customer. As a result, jobber DIY sales went from about 9% in 1971 to 36% in 1985, according to MEMA surveys.

However, programmed distribution also tied the jobber closer to his programmed WD, which was a key reason many independent jobbers refused to join a program. The leading programs are now extending signage to the dealer level and offering benefits for those dealers that participate. The end result will be a much more controlled and efficient traditional distribution system. O'Reilly/Ozark is a good example of how an integrated WD operation will work in the 1990s. ■

O'Reilly/Ozark Automotive, Springfield, MO, owns 80 stores, serves about 100 independent jobbers and participates in the Auto Value buying and marketing group.

Sales at O'Reilly/Ozark are split almost evenly between wholesale and retail and President Dave O'Reilly thinks it will stay that way.

The O'Reilly stores compete against retail operations like AutoZone (formerly Auto Shack) and Western Auto by having more SKUs than the average retail store. And they compete against traditional jobbers by with having the price and the kind of aggressive merchandising techniques pioneered by the retail-oriented chains.

"I think our stores have grown because we have good people who can handle professional mechanics," O'Reilly said, "and yet we have the kind of store that invites the retail customer to shop there. It's clean, open, and inviting." O'Reilly advertising stresses its advantages: "Our prices bring you in, our people bring you back."

On competition, O'Reilly said, "You can't really get more new retail people in the market. We've had the onslaught, now I expect a shake-out," he said of the retail side.

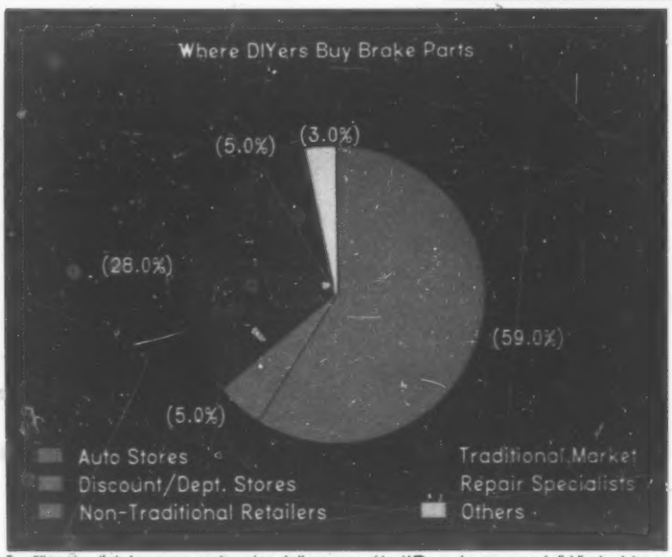
"On the professional side, I really don't know. You'll see some people coming in to two-step the market, I mean, WDs selling direct to installers. Specialty installers are going to continue on taking business away from traditional garages and stations.

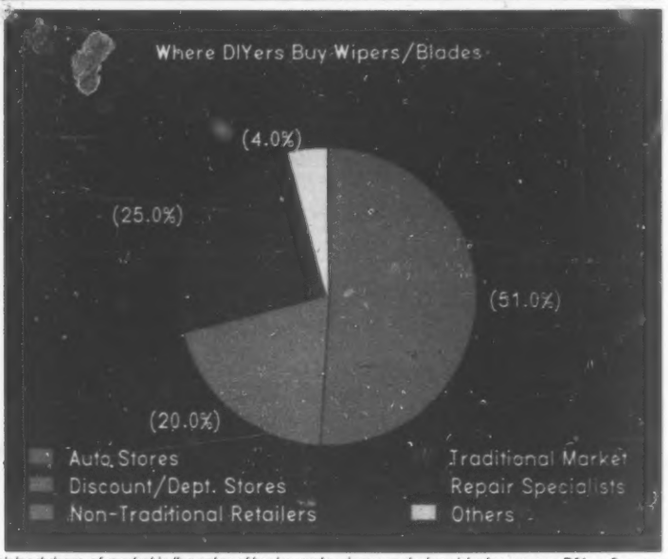
"Independent jobbers are getting picked to death on both sides, professional and retail," O'Reilly noted. "The professional side's tough. The independent's going to have establish himself with an aggressive WD to survive."

To keep Ozark's independent jobber customers competitive, Ozark is developing a marketing program for Auto Value. "When we started with Auto Value, it was primarily for purchasing power and private labels. Group buying," O'Reilly said. "Marketing was secondary. But marketing's becoming more important as price parity becomes more common. I think price parity is really here. Now you differentiate your program by marketing."

O'Reilly sees considerably more consolidations in the aftermarket in the next five years or so.

"We're going to have to become better merchandisers and advertisers. We have to let the DIYer and the service dealer both know we have the expertise, the product, and the price for him. The same principles apply to both customers." ■




Traditional outlets (garages and service stations served by WDs and programed distributors) have their best share of market in the sales of brake parts, wipers and wiper blades among DIYers. Source: AM's 1987 CARS.

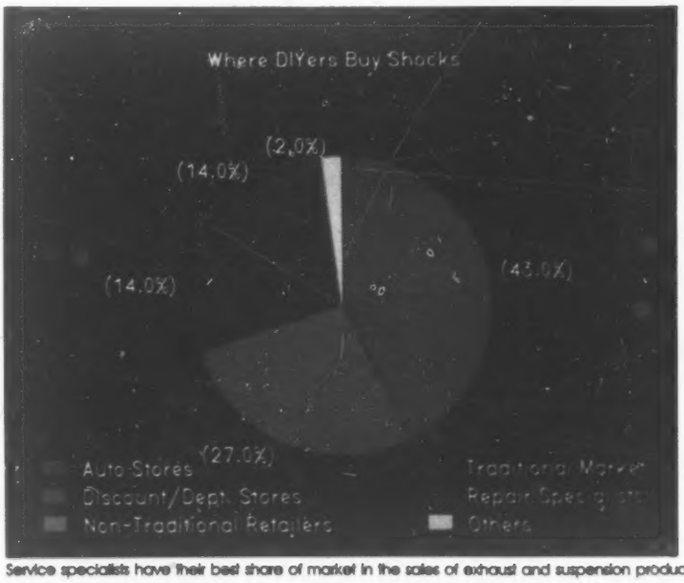
# SERVICE SPECIALISTS

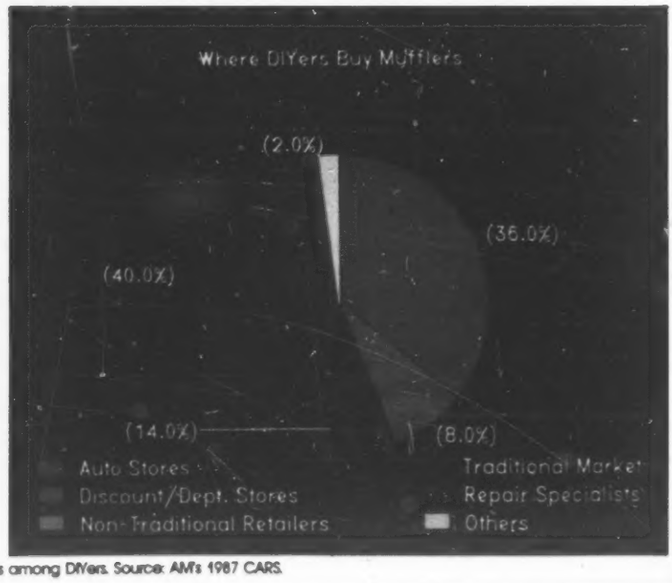
The birth of automotive quick service is restoring consumer confidence in the service industry. Vehicle owners can stop at any quick lube location, choose any engine performance franchise, or drive to any exhaust/undercar facility and expect a certain level of price and performance. Often, it's guaranteed.

Given this development, along with the graying of America, the increasing complexity of vehicles, and the time pressures which constrain both two-income families and single consumers from doing it themselves, repair specialists are well on their way to an important share of market (SOM) in automotive repair.

Current industry figures claim exhaust specialists' SOM is nearly 50% and the quick oil change artists' SOM at between 4% and 6% of retail oil sales, and that last SOM percentage may double within the next three years. More than seven million tune-ups have been performed to date by the largest engine performance franchise operation.

Add to this the customer-convenient grouping of half-a-dozen repair specialists in each of the 200, possibly soon-to-be 2,000 auto malls springing up around the country, and the repair specialists, like Precision Tune, mean stiff competition for the automotive parts and service dollar. ■




Service specialists have their best share of market in the sales of exhaust and suspension products among DIYers. Source: AM's 1987 CARS.